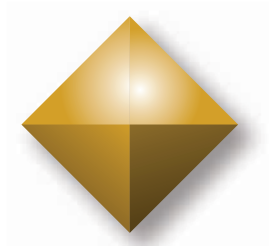
PASCACK BANCORP INC

2014 Annual Report

LEADERSHIP ◆ ENHANCING SHAREHOLDER VALUE ◆ RELATIONSHIPS ◆ COMMUNITY

CORPORATE PROFILE

Pascack Bancorp, Inc. headquartered in Waldwick, New Jersey is the Holding Company for Pascack Community Bank. All Directors of Pascack Bancorp, Inc. are also Directors of Pascack Community Bank.



BOARD OF DIRECTORS

JON F. HANSON
Chairman of the Board

Chairman, The Hampshire Companies

BRUCE M. MEISEL
Vice Chairman of the Board

Managing Member
First Westwood Realty, LLC

NANCY E. GRAVES
President & Chief Executive Officer
Pascack Community Bank

PAUL C. BAKER
Managing Partner
PCB Associates, LLC

SALVATORE COCCO, JR.
Financial Consultant
AXA Advisors, LLC

DANIEL J. GELTRUDE
CPA & Managing Partner
Geltrude & Company

JERROLD B. GROSSMAN
President & Chief Executive Officer
Genesis Bio-Pharmaceuticals

MARY JANE HEKEMIAN
Vice President & Director
Hekemian Co., Inc.

LAWRENCE R. INSERRA, JR.
President
Inserra Supermarkets, Inc.

MARTIN J. LEVINE
President
Audubon Management Company

JEROME J. LOMBARDO
President
C.J. Lombardo Company

JAMES M. PIRO, ESQ.
Piro, Zinna, Cifelli, Paris & Genitempo

MESSAGE TO OUR SHAREHOLDERS

Dear Shareholders:

Our 2014 financial performance reflects the benefits of a strong Board of Directors and Bank Management team who offer the experience, knowledge and priorities that our customers value. The Company posted record profits with net income of $2.4 million as we remain committed to our core business as a premier commercial bank.

We completed a conversion of 81% or 369,250 shares of our Series C Preferred Stock to 1,229,589 shares of Common Stock in July. The shares of Common Stock increased to 3,598,832, resulting in dilution in both earnings per share and book value due to the significant increase in common shares outstanding. However, the Preferred Stock dividend expense reduction will have a permanent positive impact.

We know our markets, our customers and their businesses. Bergen and Essex counties are highly desirable markets for business and personal growth. Our commercial customers span multi-family loans, credit tenant loans, commercial development loans and manufacturing loans that reflect the diverse businesses we serve. Our personal involvement with our customers differentiates us from our competition. *Made in New Jersey* defines our customer's manufacturing businesses that create jobs and unique products supporting our local economy. Their innovative products span the medical and nautical; new businesses to multi-generational businesses.

We are committed to managing interest rate risks by attracting and retaining commercial loan relationships in a strategic manner. Historically, low interest rates resulted in a year of unprecedented

JON F. HANSON
Chairman of the Board

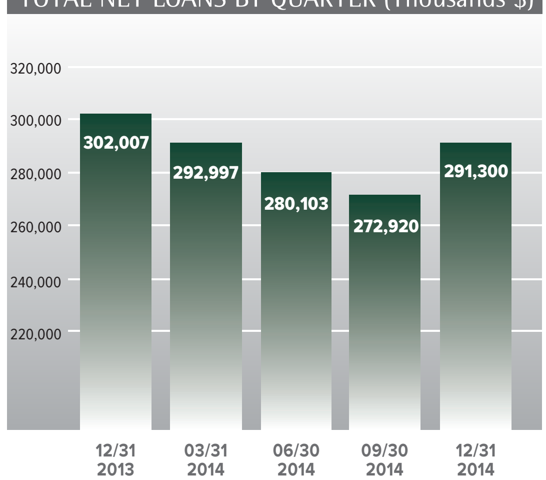
NANCY E. GRAVES
President & Chief Executive Officer

commercial refinancing. We experienced loan pay-offs (some due to property sales and some due to rate) but the pre-payment penalty income provided some off-set to the lower earning assets. While net loan production was not as expected, we managed expenses to achieve our net income objective.

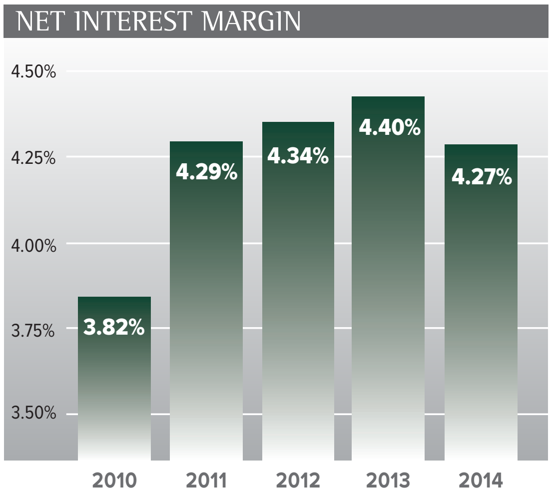
Our loan production was $65 million, our second best year in our history. Normal amortization and loan payoffs resulted in a decline in net loans outstanding.

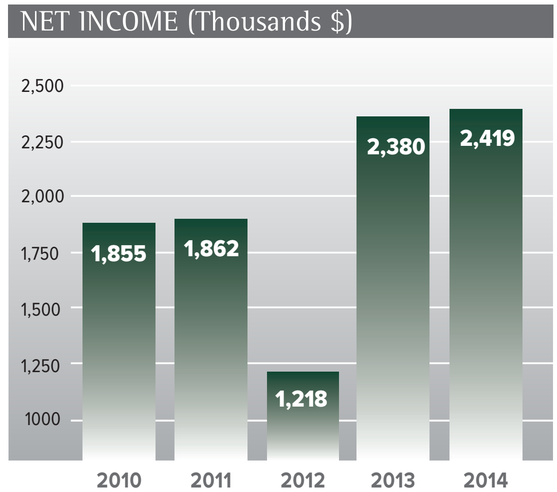
The loan portfolio reached a low for the year of $272.9 million at the end of the third quarter but with a unified effort from our Board and Bank Management, we booked in excess of $20 million in new loans in the fourth quarter resulting in strong year-end net loans of $291 million. Our fourth quarter net loans increased by 6.73% and was better than 72% of our peers. Our loan portfolio also continues to distinguish the Bank with non-performing loans at 0.80% of total loans. The first quarter 2015 loan pipeline is strong which will put us on track for continued growth.

TOTAL NET LOANS BY QUARTER (Thousands $)



MESSAGE TO OUR SHAREHOLDERS





Our Net Interest Margin continues to be above our peers. The FDIC reports the average Net Interest Margin is 3.12% down from 3.27%. Our Net Interest Margin stands at 4.27%. We continue to be well positioned for rising rates. Our commercial loan portfolio has an average interest rate maturity of five years or less allowing for loan rate repricing as rates rise. The excess liquidity resulting from lower than anticipated net loan growth was an opportunity to reduce promotional high cost deposits. We also achieved the 2014 strategic goal of changing our deposit mix from savings to fixed income certificates of deposit.

Our continued commitment to the communities we serve is reflected by our personal and financial involvement contributing to organizations and local initiatives. We encourage our employees to join us in volunteering time to the many worthwhile community activities we support.

We are recognized as a leader in our communities for our involvement and commitment.

We anticipate 2015 will be a more normalized year in terms of commercial lending and our momentum through year-end demonstrates the strength of our Board and Bank Management to continue to generate quality loans. As businesses look to invest in new projects, we expect new loan opportunities to increase. We will continue to expand our brand through increased outreach and marketing which will leverage our footprint.

On behalf of our Board of Directors and our employees, thank you. We appreciate and value the ongoing support of our shareholders, customers, and communities, and look forward to continuing to work on your behalf.

Jon F. Hanson
Chairman of the Board

Nancy E. Graves
President & Chief Executive Officer

SELECT FINANCIAL HIGHLIGHTS

	ACTUAL 2014	ACTUAL 2013	ACTUAL 2012	ACTUAL 2011	ACTUAL 2010
BALANCE SHEET DATA ($000)					
TOTAL ASSETS	353,929	371,495	373,780	330,876	297,994
INVESTMENTS	4,687	–	1,325	13,976	29,422
TOTAL LOANS (NET)	291,300	302,007	321,545	265,297	236,423
ALLOWANCE FOR LOAN LOSSES	4,510	5,065	4,419	3,635	2,872
TOTAL DEPOSITS	291,762	309,646	314,536	275,033	244,219
SHAREHOLDER'S EQUITY	32,261	29,830	26,537	25,879	20,218
INCOME STATEMENT DATA ($000)					
NET INTEREST INCOME	14,107	16,139	14,138	12,145	10,262
PROVISION FOR LOAN LOSSES	–	674	2,601	966	1,750
NET INCOME	2,419	2,380	1,218	1,862	1,855
NET INCOME TO COMMON STOCKHOLDERS	2,092	1,837	730	1,354	1,613
PER SHARE DATA					
EARNINGS PER SHARE (BASIC)[1]	$0.58	$0.79	$0.32	$0.61	$0.71
BOOK VALUE[2]	$8.48	$8.88	$8.02	$7.90	$7.24
OPERATING RATIOS (%)					
RETURN ON ASSETS	0.68	0.64	0.30	0.63	0.67
RETURN ON EQUITY	7.50	7.98	4.59	8.01	9.22
NET INTEREST MARGIN	4.27	4.40	4.34	4.29	3.82
ASSET QUALITY RATIOS (%)					
EQUITY CAPITAL TO ASSETS	9.12	8.03	7.10	7.82	6.79
ALLOWANCE FOR LOAN LOSSES TO TOTAL LOANS	1.52	1.65	1.36	1.35	1.20
NON-PERFORMING LOANS TO TOTAL LOANS	0.80	0.89	0.61	0.91	1.01

1 The per share value reported in 2014 includes a dilution of $0.22 per share for the increase in the outstanding common shares from the Series C Preferred Stock conversion.
2 The book value reported in 2014 includes a dilution of $1.29 for the increase in the outstanding common shares from the Series C Preferred Stock conversion.

COMMERCIAL BANKING

Commercial Lending

We remain committed to our core business as a premier commercial bank

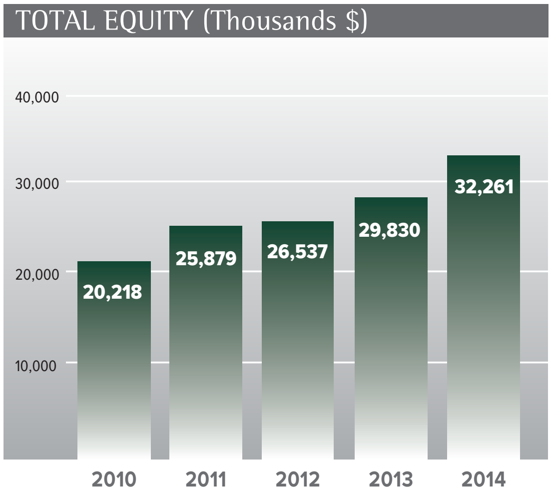
We build long-term relationships that grow with our business customers. Our Board of Directors and Bank Management expertise are value-added, setting the Bank apart from the competition. We know our customers and our markets, our decisions are hands-on, informed and expeditious.

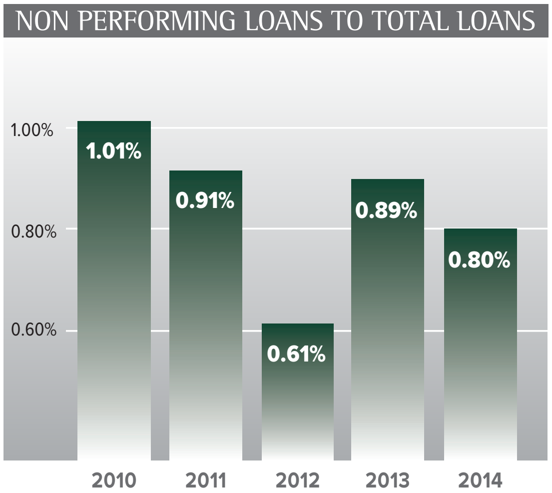
Bergen County, immediately adjacent to New York City, is heavily influenced by this proximity. The County also borders the Newark port which is one of the most active ports in the country for imports of products from overseas and the West Coast.

OUR COMMERCIAL CUSTOMERS SPAN MULTI-FAMILY LOANS, CREDIT TENANT LOANS, COMMERCIAL DEVELOPMENT LOANS AND MANUFACTURING LOANS THAT REFLECT THE DIVERSE BUSINESSES WE SERVE. OUR PERSONAL INVOLVEMENT WITH OUR CUSTOMERS DIFFERENTIATES US FROM OUR COMPETITION

The Bank had another outstanding year as our loan portfolio strength, Net Interest Margin and asset quality, ranked in the top 10% in New Jersey. Monitoring a commercial portfolio for ongoing performance, including site visitations, economic changes, portfolio concentrations and the importance of rising interest rates requires a team of people who understand commercial lending and portfolio management.

MADE IN NEW JERSEY
LOANS, DECISIONS, JOBS





INITIATIVES FOR 2015

Relationship Banking

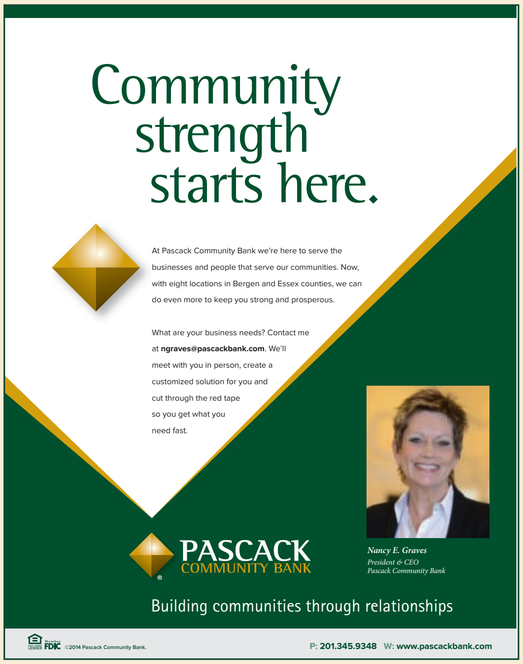
We differentiate ourselves from the competition by the experience and tenure of our branch management and staff. Our customers appreciate our personal interaction in a banking arena that has become more and more impersonal.

We operate in two of the most attractive and populated counties in the State. New Jersey is the most densely populated State in the United States with Bergen and Essex Counties both in the top three. We will continue leveraging our footprint by personal outreach, marketing and branding.

WE CONTINUE TO DELIVER THE PERSONAL COMMUNITY BANKING CULTURE OUR CUSTOMERS EXPECT AND DESERVE

While many banks have become increasingly reliant on higher fees to consumers, we have not. The trend in free checking since 2009 documents that only 38% of banks offer this product today compared to 76% five years ago. We offer free checking because philosophically we believe in community banking which serves our customers and our shareholders.

ADVERTISING CAMPAIGNS



COMMUNITY INVOLVEMENT

Our community initiatives bring value to the many organizations and people we reach every year. We encourage our employees to be involved which enriches and inspires us all.

NANCY E. GRAVES Junior Achievement, State Board of Directors ◆ The Boys and Girls Clubs of Lodi and Hackensack 2014 Woman of the Year **MICHAEL J. TREPICCHIO** Saddle River Landmarks Commission ◆ Saddle River Little League **JOHN SCERBO** Oakland Board of Education ◆ PAC Parents Foundation, Inc. **MIKE KURZAWSKI** Paramus Rotary ◆ Gift of Life ◆ Clark Township Planning Board **JOHN MESSINA** Elmwood Park Little League Board of Directors ◆ Knights of Columbus ◆ Elmwood Park Recreation Street Hockey **STUART MILSTONE** Willard Elementary School ◆ Makers Space-Bergen Technical Academies, Hackensack NJ **MINA TURELLI** Volunteer EMT ◆ The Lyndhurst Police Emergency Squad **MICHELE CALISE** Waldwick Chamber of Commerce ◆ Allendale Chamber of Commerce ◆ Women United In Philanthropy ◆ Bergen County Women's Networking Group **ERICA VICTORIA** Wyckoff Chamber of Commerce **JOSEPH HOPPE** Maywood Chamber of Commerce **FRANK DIDOLCI** Westwood Rotary Club ◆ Westwood Chamber of Commerce ◆ Westwood UNICO ◆ Pascack Valley Chamber of Commerce ◆ North Jersey Chamber of Commerce **CHRISTINA AGUGLIARO** 1st Lieutenant – Waldwick Fire Department **MEL PRIOLO** Nutley Chamber of Commerce ◆ Nutley PBA Local #33 ◆ Nutley High School Career Advisory Council ◆ The Mike Geltrude Foundation ◆ John V. Kelly Memorial Foundation **MICHAEL GAMBATESE** Business Partner Network (BPN) ◆ Hackensack Chamber of Commerce **CRYSTAL MACDONALD** Hackensack Chamber of Commerce

Junior Achievement Finance Park – We worked with 56 high school students from the School of Business, Technology, Marketing and Finance of John F. Kennedy High School in Paterson, NJ. Our time spent with the students, in tandem with the in-class curriculum prior to their visit, provided each student with more than 24 hours of financial literacy education, at no cost to the schools and their families.

Junior Achievement Bowl-A-Thon – A spring/summer fundraiser to assist in JA's mission of supporting financial literacy for the youth of the State of NJ. Bank employees and their families attended the event. 56,000 students receive financial literacy education free of charge.

Building New Jersey Communities

As an integral member of the growth and prosperity of the communities we serve, Pascack Community Bank is committed to the on-going support of organizations that educate, enrich or improve the lives of others.

Coastal Habitat for Humanity - Rebuilding a house destroyed by Super Storm Sandy in Neptune, NJ

ORGANIZATIONS WE SUPPORT

The Christopher Goodell School Fund
Coastal Habitat for Humanity
The Boys & Girls Clubs of Lodi and Hackensack
Wounded Warrior Foundation
Junior Achievement of New Jersey
New Jersey Business Hall of Fame
Adopt-A-Soldier Platoon Inc.
The Center for Food Action

Pascack Valley Meals on Wheels
The Gift of Life Foundation
Lyndhurst Police Emergency Squad
Mental Health Association
PAC Parents Foundation Inc.
NJ Citizens Action Education Fund
Waldwick Fire Department
NJ Community Development Corp.
Waldwick Ambulance Corps.
Westwood Track Club
Westwood Chamber of Commerce
Westwood Fire Department
Nutley Crew Booster Association
Rotary Club of Nutley
Nutley Chamber of Commerce
The Phoenix Center
Kevin G. Kennedy Civic Association
Ardmore Academy of Irish Dance
American Legion Auxiliary Post 70
Nutley High School Career Advisory Council
Franklin Reformed Church
Nutley Little Theatre
Golf for a Cure
Nutley Elks Lodge #1290
Township of Nutley
Nutley Fire Department
Hillsdale Baseball and Softball League
Borough of Hillsdale
Autism Speaks
Waldwick Cooperstown 2014
Veterans of Foreign Wars Post 1049
Waldwick Lions Club
Waldwick Volunteer Ambulance Corps.
BC Wildcat Program
HCA of Waldwick
Alzheimer's Association
Paramus Rotary
Police Unity Tour
Eva's Village
The ARC of Bergen and Passaic Counties
Carl Inserra Leukemia Fund
Mike Geltrude Foundation
Susan Zabronsky Hughes Memorial Run
Northern NJ Community Bankers
Nutley Invitational Golf Outing
North Jersey Chamber of Commerce
Upper Main Alliance
Gift of Life America
Bergen County BAR Foundation
Borough of Park Ridge
Bergen Community College
Foundation for Free Enterprise
Pascack Valley Meals on Wheels
Boy Scout Troop #47
Northern NJ Networking Group
Community All Stars LLC
Westwood UNICO
Westwood Softball Association
The Friends of the Westwood Public Library
Westwood Volunteer Ambulance Corps.
Hackensack Regional Chamber of Commerce
Nutley PBA Local #33
Nutley FMBA 44 Foundation
Nutley American Little League
Special Young Adults
Nutley UNICO
Third Half Club
John V. Kelly Memorial Foundation
American Legion Post 70
Norwood Police Department
Hillsdale Boy Scout Troop 109
Borough of Hillsdale
Knights of Columbus
Hillsdale Volunteer Fire Department
Hillsdale K-8 Education Foundation
Hillsdale Recreation
Pascack Valley Tip In Club
Waldwick Chamber of Commerce
Village School
Waldwick Lions Club
The Hermitage
Wyckoff Family YMCA
Forum School
Blue Star Mothers of North Jersey
Sean Fisher Memorial Foundation
Allendale Waldwick PBA Local 217
Waldwick Community Alliance
Waldwick Soccer Association
Oritani Golf Classic
Allendale Chamber of Commerce
AAH of Bergen County
Wyckoff Chamber of Commerce
Lodi Old Timers Little League
Saint Joseph Society
Race NJ
The Big Game 5K AAC

FINANCIAL STATEMENTS

PASCACK
BANCORP INC

December 31, 2014
and 2013

BAKER TILLY

formerly
PARENTEBEARD

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Allentown, PA 18195-1027
tel 610 336 8180
tel 800 267 9405
fax 888 264 9617
bakertilly.com

Independent Auditors' Report

Board of Directors
Pascack Bancorp, Inc.

We have audited the accompanying consolidated financial statements of Pascack Bancorp, Inc. and its subsidiary, Pascack Community Bank, which comprise the consolidated balance sheet as of December 31, 2014 and 2013 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pascack Bancorp, Inc. and its subsidiary, Pascack Community Bank as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Allentown, Pennsylvania
March 5, 2015

Pascack Bancorp, Inc.

Consolidated Balance Sheet
(In Thousands, Except Share and Per Share Data)
December 31, 2014 and 2013

	2014	2013
Assets		
Cash and due from banks	$ 12,239	$ 21,459
Federal funds sold	16,254	19,609
Cash and cash equivalents	28,493	41,068
Interest-bearing time deposits	1,201	3,350
Securities held-to-maturity (fair value of $4,677 at December 31, 2014)	4,687	-
Loans receivable, net of allowance for loan losses 2014 $4,510; 2013 $5,065	291,300	302,007
Investment in restricted stock	1,523	1,717
Premises and equipment, net	24,105	21,069
Accrued interest receivable	1,194	1,373
Other assets	1,426	911
Total assets	$ 353,929	$ 371,495
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Demand, non-interest bearing	$ 65,132	$ 58,314
Interest bearing	226,630	251,332
Total deposits	291,762	309,646
Long-term borrowings	26,500	28,500
Subordinated notes payable	1,600	1,600
Capital lease obligation	913	937
Accrued interest payable	263	337
Other liabilities	630	645
Total liabilities	321,668	341,665
Stockholders' Equity		
Preferred stock, Series C, no par value, liquidation preference $20 per share; authorized 1,000,000 shares; issued and outstanding 2014 86,250 shares; 2013 455,500 shares	1,725	9,110
Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 2014 3,598,832 shares; 2013 2,334,143 shares	26,236	18,512
Retained earnings	4,300	2,208
Total stockholders' equity	32,261	29,830
Total liabilities and stockholders' equity	$ 353,929	$ 371,495

See notes to consolidated financial statements

Pascack Bancorp, Inc.

Consolidated Statement of Income
(In Thousands)
Years Ended December 31, 2014 and 2013

	2014	2013
Interest Income		
Loans receivable, including fees	$ 16,510	$ 19,234
Securities	31	33
Other	161	154
Total interest income	16,702	19,421
Interest Expense		
Deposits	1,359	2,073
Borrowings	1,236	1,209
Total interest expense	2,595	3,282
Net interest income	14,107	16,139
Provision for Loan Losses	-	674
Net interest income after provision for loan losses	14,107	15,465
Other Income		
Loss on sale of securities	-	(185)
Service charges on deposit accounts	155	131
Other service charges, commissions and fees	223	188
Gain on sale of foreclosed real estate owned	-	100
Total other-than-temporary impairment gain (losses)	-	262
Less portion of (gain) loss recognized in other comprehensive loss (before taxes)	-	(310)
Net other-than-temporary impairment losses	-	(48)
Total other income	378	186
Other Expenses		
Salaries and employee benefits	4,653	5,032
Occupancy	1,900	2,093
Data processing	893	840
Furniture, fixtures, and equipment	614	700
Professional fees	616	746
Stationery, supplies, and printing	115	215
Advertising and public relations	96	156
FDIC insurance and assessments	356	419
Other	1,195	1,370
Total other expenses	10,438	11,571
Income before income tax	4,047	4,080
Income Tax Expense	1,628	1,700
Net income	2,419	2,380
Preferred Stock Dividends	(327)	(543)
Net income attributed to common stockholders	$ 2,092	$ 1,837

See notes to consolidated financial statements

Pascack Bancorp, Inc.

Consolidated Statement of Comprehensive Income
(In Thousands)
Years Ended December 31, 2014 and 2013

	2014	2013
Net Income	$ 2,419	$ 2,380
Other Comprehensive Income		
Unrealized holding gains on securities available-for-sale	-	77
Less reclassification adjustment for credit related other-than-temporary impairment losses (i)	-	48
Less reclassification adjustment for losses included in net income (ii)	-	185
Net unrealized gains	-	310
Tax Effect (iii)	-	(124)
Total other comprehensive income	-	186
Total comprehensive income	$ 2,419	$ 2,566

(i) 2013 amounts are included in net other-than-temporary impairment losses on securities on the Consolidated Statement of Income as a separate element of Other Income. As of and for the year ended December 31, 2014 the Company had no securities available-for-sale or other-than-temporary impairment losses.

(ii) 2013 amounts are included in loss on sale of securities on the Consolidated Statement of Income as a separate element of Other Income. As of and for the year ended December 31, 2014 the Company had no securities available-for-sale or other-than-temporary impairment losses.

(iii) 2013 income tax effect on credit related other-than-temporary impairment losses of $19 are included in Income Tax Expense on the Consolidated Statement of Income. Income tax effect of losses on sales of securities of $74 for the year ended December 31, 2013 is included in Income Tax Expense on the Consolidated Statement of Income. As of and for the year ended December 31, 2014 the Company had no securities available-for-sale or other-than-temporary impairment losses.

See notes to consolidated financial statements

Pascack Bancorp, Inc.

Consolidated Statement of Stockholders' Equity
(In Thousands, Except Share Data)
Years Ended December 31, 2014 and 2013

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2012	$ 8,000	$ 18,352	$ 371	$ (186)	$ 26,537
Net income	-	-	2,380	-	2,380
Other comprehensive income	-	-	-	186	186
Issuance of preferred stock, Series C (55,500 shares)	1,110	-	-	-	1,110
Dividends on preferred stock, Series C	-	-	(543)	-	(543)
Stock-based compensation expense (23,333 shares)	-	160	-	-	160
Balance, December 31, 2013	9,110	18,512	2,208	-	29,830
Net income			2,419		2,419
Conversion of Series C preferred stock to common stock	(7,385)	7,385	-	-	-
Dividends on preferred stock, Series C	-	-	(327)	-	(327)
Stock-based compensation expense (35,100 shares)	-	339	-	-	339
Balance, December 31, 2014	$ 1,725	$ 26,236	$ 4,300	$ -	$ 32,261

See notes to consolidated financial statements

Pascack Bancorp, Inc.

Consolidated Statement of Cash Flows
(In Thousands)
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Net income	$ 2,419	$ 2,380
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	-	674
Depreciation	1,059	1,121
Net amortization of premiums and accretion of discounts	3	-
Net amortization of loan fees and costs	(124)	(176)
Loss on sale of securities	-	185
Other-than-temporary impairment on securities	-	48
Gain on sale of foreclosed real estate owned	-	(100)
Stock-based compensation	339	160
Deferred income tax expense (benefit)	62	(223)
Decrease (increase) in accrued interest receivable	179	(40)
(Increase) decrease in other assets	(577)	728
(Decrease) increase in accrued interest payable	(74)	138
Decrease in other liabilities	(15)	(794)
Net cash provided by operating activities	3,271	4,101
Cash Flows from Investing Activities		
Purchase of securities held-to-maturity	(4,981)	-
Proceeds from maturities of and principal repayments on securities available-for-sale	-	40
Proceeds from maturities of and principal repayments on securities held-to-maturity	291	-
Proceeds from the sale of securities	-	1,362
Net decrease in loans	10,831	19,040
Proceeds from the sale of foreclosed real estate owned	-	900
Net maturity of interest bearing time deposits	2,149	250
Redemption (purchase) of investments in restricted stock	194	(103)
Purchases of premises and equipment	(4,095)	(3,778)
Net cash provided by investing activities	4,389	17,711
Cash Flows from Financing Activities		
Net decrease in deposits	(17,884)	(4,890)
Principal payments on capitalized lease obligation	(24)	(30)
Proceeds from long-term borrowings	-	500
Proceeds from subordinated notes payable	-	1,600
Principal payments on subordinated notes payable	(2,000)	-
Proceeds from issuance of preferred stock, Series C	-	220
Dividends on preferred stock	(327)	(543)
Net cash used in financing activities	(20,235)	(3,143)
Net (decrease) increase in cash and cash equivalents	(12,575)	18,669
Cash and Cash Equivalents, Beginning of Year	41,068	22,399
Cash and Cash Equivalents, End of Year	$ 28,493	$ 41,068
Supplementary Cash Flows Information		
Interest paid	$ 2,555	$ 3,144
Income taxes paid	$ 2,003	$ 1,576
Supplementary Schedule of NonCash Investing and Financing Activities		
Reduction of capital lease obligation resulting from purchase of premises	$ -	$ 1,212

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Principles of Consolidation and Nature of Operations

The consolidated financial statements include the accounts of Pascack Bancorp, Inc., a bank holding company, and its subsidiary, Pascack Community Bank (collectively, the "Company"). All intercompany accounts and transactions have been eliminated in consolidation.

Pascack Bancorp, Inc. (the "Bancorp") was incorporated on June 11, 2009 under the laws of the State of New Jersey. The Company's activity consists of owning and supervising its subsidiary, Pascack Community Bank (the "Bank"), which provides a full range of banking services to customers primarily in the Bergen, and the northern portion of Essex Counties, New Jersey.

The Bank commenced business on February 19, 2002 and is subject to Federal and New Jersey statutes applicable to banks chartered under the New Jersey banking laws. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). As a state-chartered bank, the Bank is subject to regulations by the New Jersey State Department of Banking and Insurance and the FDIC. The Bancorp, as a holding company, is subject to regulations of the Federal Reserve Board.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, determination of other-than-temporary impairment of investment securities, and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within northern New Jersey. Note 2 discusses the types of securities that the Company invests in. Note 3 discusses the types of lending that the Company engages in. The Company does not have any significant loan concentrations to any one industry or customer. Although the Company has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold, with maturities of ninety days or less. The Company maintains cash deposits in other depository institutions that may exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal. Generally, federal funds are purchased and sold for one-day periods.

Investment Securities

Securities classified as available-for-sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are carried at fair value. Unrealized gains and losses are reported as increases or decreases in other comprehensive income. Premiums and discounts are recognized in interest income using the interest method over the term of the securities. Gains and losses on the sale of securities available-for-sale are recorded on the trade date and are determined using the specific identification method. The Company had no securities classified as available-for-sale at December 31, 2014 and 2013.

Securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by the interest method over their contractual lives. Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Declines in the fair value of securities below their cost that are deemed to be other-than-temporary impairments ("OTTI") are reflected in earnings as realized losses. In estimating OTTI under the rules for accounting for certain debt and equity securities, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more-likely-than-not will be required to sell the debt security before its anticipated recovery. In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more-likely-than-not that it will be required to sell the debt security prior to anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the timing of future estimated cash flows of the security.

The Company has recognized other-than-temporary impairment losses in the years ended December 31, 2014 and 2013 of $-0- and $48,000, respectively.

Investment in Restricted Stock, at Cost

Equity securities are principally comprised of restricted stock in the Federal Home Loan Bank of New York (“FHLB”) and Atlantic Community Bankers Bank (“ACBB”), which are carried at cost. Federal law requires a member institution of the FHLB to hold stock according to a predetermined formula. The FHLB stock was carried at $1,483,000 and $1,677,000 for the years ended December 31, 2014 and 2013, respectively. The ACBB stock was carried at $40,000 for the years ended December 31, 2014 and 2013, respectively. Management does evaluate the restricted stock for impairment and believes no impairment charge is necessary related to the stock at December 31, 2014 and 2013, respectively.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate and commercial construction. Consumer loans consist of the following classes: residential mortgage loans, home equity loans and second mortgages and other consumer loans.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans including impaired loans generally is either applied against principal or reported as interest income, according to management’s judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans and other loan modifications.
6. Quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The Company engages in a variety of lending activities, including commercial, construction, residential real estate and consumer/installment transactions. The Company focuses its lending activities on individuals, professionals and small to medium sized businesses.

Commercial and Industrial Loans and Commercial Real Estate Loans - The commercial loan portfolio consists primarily of commercial loans to small and medium sized businesses and individuals for general business and real estate uses. The commercial and industrial loans are generally secured by real estate and/or the guarantees of the principal borrowers. Commercial loans that exceed the Company's legal limits are participated with other commercial banks. Commercial loans are made on a line of credit and fixed basis to finance inventory, equipment or short-term working capital. The loans are generally made on a secured basis with the personal guarantees of the principal owners with occasional policy exceptions. Fixed loans are generally made on a one to five year duration. Commercial real estate loans are made for the acquisition of new property or the refinancing of existing property. These loans are typically related to commercial businesses and secured by the underlying real estate used in the business or real property of the principals. Commercial real estate loans also include commercial real estate investment properties leased to third parties. The Company offers commercial loans on a fixed and variable rate basis generally on three to five year repricings and a term of 10 to 25 years.

Construction Loans - Construction loans are generally made to builders, developers and consumers who wish to build their own homes or commercial structures. These loans are secured by the real estate being developed and are generally personally guaranteed by the principals of the borrowers. The duration of our construction loans generally is limited to 12 to 18 months, although payments may be structured on a longer amortization basis. Construction loans generally carry a higher degree of risk that long-term financing of existing properties because repayment depends on the ultimate completion of the project and, on some occasions, the sale of the property.

Home Equity Loans and Second Mortgages - The Company offers home equity lines of credit and home equity loans. Risks associated with loans secured by residential properties are generally lower than commercial real estate and construction loans and include general economic risks, such as the strength of the job market, employment stability and the strength of the housing market. Since most loans are secured by a primary or secondary residence, the borrower's continued employment is the greatest risk to repayment.

Consumer Loans - The Company offers a variety of loans to individuals for personal and household purposes. Consumer loans are generally considered to have greater risk than first or second mortgages on real estate because they may be unsecured, or, if they are secured, the value of the collateral may be difficult to assess and more likely to decrease in value than real estate.

Residential Mortgage Loans - Residential mortgages are secured by the borrower's residential real estate in a first lien position. These loans have varying loan rates depending on the financial condition of the borrower and the loan to value ratio. Residential mortgages have terms up to thirty years with amortizations varying from 15 to 30 years.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and industrial loans, commercial real estate loans and commercial construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. The Company does however separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, such as loans that are nonperforming or the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. The Company accrues interest on troubled debt restructurings which were performing prior to the restructure and continue to perform in accordance with their restructured terms. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loan not classified are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to operations on a straight-line basis over the estimated useful lives of the assets or, in the case of leasehold improvements, the lease period, if shorter. Buildings under capital leases are amortized over the life of the related leases. Amortization expense on assets acquired under capital leases is included with depreciation expense on owned assets. Gains or losses on dispositions are reflected in current operations. Maintenance and repairs are charged to expense as incurred.

Foreclosed Assets

Foreclosed assets are comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosures. A loan is classified as in-substance foreclosure when the Company has taken possession of the collateral regardless of whether formal foreclosure proceedings take place. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses. The Company had no foreclosed assets at December 31, 2014 and 2013.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to taxable income. Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Bank follows accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The Company had no material unrecognized tax benefits or accrued interest and penalties as of December 31, 2014 and 2013. The Bank's policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Company is no longer subject to examination by taxing authorities for the years before January 1, 2011.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Transfers of Financial Assets

Transfers of financial assets, including loan participation sales, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheet when they are funded.

Share-Based Compensation

The Company has stock-based compensation plans in place for employees and directors. The Company recognizes the cost of employee services rendered in exchange for an award of stock options or restricted stock grants based on the grant-date fair value of the award. The cost is recognized over the vesting period.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. In accordance with new Financial Accounting Standards Board guidance, the Company has shown the components of comprehensive income and other comprehensive income in the consolidated Statement of Comprehensive Income included in the accompanying financial statements.

Subsequent Events

The Company has evaluated subsequent events and transactions occurring subsequent to the balance sheet date of December 31, 2014 for items that should be recognized or disclosed in these financial statements. This evaluation was conducted through March 5, 2015, the date these financial statements were available to be issued.

2. Securities

At December 31, 2014 and 2013, the Company had no securities available-for-sale.

The amortized cost and approximate fair value of securities held-to-maturity at December 31, 2014 are as follows:

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities held-to-maturity:				
U.S. Government Agency Securities	$ 992	$ 2	$ -	$ 994
Ginnie Mae ("GNMA") Mortgage-backed securities	3,695	-	(12)	3,683
Total	$ 4,687	$ 2	$ (12)	$ 4,677

There were no security sales for the year ended December 31, 2014. Security sales for the year ended December 31, 2013 resulted in gross gains of $-0- and gross losses of $185,000.

There were no pledged securities as of December 31, 2014.

At December 31, 2013, the Company had no securities held-to-maturity.

The amortized cost and fair value of securities as of December 31, 2014, by contractual maturity or next repricing, are shown below. Expected maturities may differ from contractual maturities because the borrowers may have the right to prepay obligations with or without any penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Due after one year through five years	$ 4,687	$ 4,677

The following table summarizes those securities held-to-maturity with unrealized losses, segregated by the length of time in a continuous unrealized loss position:

	Continuous Unrealized Loss Position					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(In Thousands)					
Securities held-to-maturity, GNMA Mortgage-backed securities	$ 3,695	$ (12)	$ -	$ -	$ 3,695	$ (12)
Total	$ 3,695	$ (12)	$ -	$ -	$ 3,695	$ (12)

At December 31, 2014, the Company had 2 securities in an unrealized loss position. The decline in fair value of these securities is due primarily to interest rate fluctuations. The Company does not intend to sell these securities prior to recovery and it is more likely than not that the Company will not have to sell these securities prior to recovery.

3. Loans Receivable and Allowance for Loan Losses

Loans at December 31, 2014 and 2013 are summarized as follows:

	2014	2013
	(In Thousands)	
Commercial and industrial	$ 29,187	$ 37,338
Commercial real estate	229,379	235,493
Construction loans	1,400	1,497
Home equity and second mortgages	14,091	17,453
Consumer loans, other	1,125	1,057
Residential mortgages	20,986	14,584
Total loans	296,168	307,422
Allowance for loan losses	(4,510)	(5,065)
Unearned net loan origination (fees) costs	(358)	(350)
Total loans, net	$ 291,300	$ 302,007

Activity in the allowance for loan losses for the years ended December 31, 2014 and 2013 is summarized as follows:

	2014	2013
	(In Thousands)	
Balance, beginning of year	$ 5,065	$ 4,419
Provision for loan losses	-	674
Charge offs, net	(555)	(28)
Balance, end of year	$ 4,510	$ 5,065

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2014 and 2013, and information in regard to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2014 and 2013:

	2014						
	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
	(In Thousands)						
Commercial and industrial	$ 518	$ (35)	$ 98	$ (288)	$ 293	$ -	$ 293
Commercial real estate	2,826	(433)	-	109	2,502	-	2,502
Construction loans	31	-	-	(18)	13	-	13
Home equity and second mortgages	169	(118)	-	78	129	-	129
Consumer loans, other	30	(28)	6	9	17	-	17
Residential mortgages	159	(45)	-	12	126	-	126
Unallocated	1,332	-	-	98	1,430	-	1,430
Total	$ 5,065	$ (659)	$ 104	$ -	$ 4,510	$ -	$ 4,510

	2014		
	Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
	(In Thousands)		
Commercial and industrial	$ 29,187	$ 1,979	$ 27,208
Commercial real estate	229,379	1,600	227,779
Construction loans	1,400	-	1,400
Home equity and second mortgages	14,091	200	13,891
Consumer loans, other	1,125	-	1,125
Residential mortgages	20,986	176	20,810
Total loans	$ 296,168	$ 3,955	$ 292,213

	2013 Allowance for Loan Losses: Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
	(In Thousands)						
Commercial and industrial	$ 421	$ -	$ 94	$ 3	$ 518	$ -	$ 518
Commercial real estate	3,517	-	-	(691)	2,826	-	2,826
Construction loans	4	-	-	27	31	-	31
Home equity and second mortgages	286	(100)	3	(20)	169	-	169
Consumer loans, other	16	(32)	7	39	30	-	30
Residential mortgages	175	-	-	(16)	159	-	159
Unallocated	-	-	-	1,332	1,332	-	1,332
Total	$ 4,419	$ (132)	$ 104	$ 674	$ 5,065	$ -	$ 5,065

	2013 Loans Receivables: Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
	(In Thousands)		
Commercial and industrial	$ 37,338	$ -	$ 37,338
Commercial real estate	235,493	2,719	232,774
Construction loans	1,497	-	1,497
Home equity and second mortgages	17,453	35	17,418
Consumer loans, other	1,057	-	1,057
Residential mortgages	14,584	-	14,584
Total loans	$ 307,422	$ 2,754	$ 304,668

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2014 and 2013:

	2014	2013
	(In Thousands)	
Commercial and industrial	$ 735	$ -
Commercial real estate	1,260	2,719
Home equity and second mortgage	200	-
Residential mortgages	176	-
Total	$ 2,371	$ 2,719

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of December 31, 2014 and 2013:

	Commercial and Industrial	Commercial Real Estate	Construction Loans	Total
	2014 (In Thousands)			
Grade:				
Pass	$ 26,230	$ 226,314	$ 1,400	$ 253,944
Special mention	2,222	1,805	-	4,027
Substandard	735	1,260	-	1,995
Doubtful	-	-	-	-
Total loans	$ 29,187	$ 229,379	$ 1,400	$ 259,966
	2013			
Grade:				
Pass	$ 36,331	$ 231,962	$ 1,497	$ 269,790
Special mention	1,007	812	-	1,819
Substandard	-	2,719	-	2,719
Doubtful	-	-	-	-
Total loans	$ 37,338	$ 235,493	$ 1,497	$ 274,328

	Home Equity and Second Mortgages	Consumer Loans, Other	Residential Mortgages	Total
	2014 (In Thousands)			
Performing	$ 13,891	$ 1,125	$ 20,810	$ 35,826
Nonperforming	200	-	176	376
Total loans	$ 14,091	$ 1,125	$ 20,986	$ 36,202
	2013			
Performing	$ 17,453	$ 1,057	$ 14,584	$ 33,094
Nonperforming	-	-	-	-
Total loans	$ 17,453	$ 1,057	$ 14,584	$ 33,094

The following tables summarize information in regards to impaired loans by loan portfolio class as of December 31, 2014 and 2013:

	2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
With no allowance recorded:					
Commercial and Industrial	$ 1,979	$ 1,979	$ -	$ 1,065	$ -
Commercial real estate	1,600	1,980	-	2,088	-
Home equity and second mortgages	200	200	-	61	-
Residential mortgages	176	222	-	159	-

	2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
With no allowance recorded:					
Commercial real estate	$ 2,719	$ 2,719	$ -	$ 1,700	$ -
Home equity and second mortgages	35	35	-	148	-

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of December 31, 2014 and 2013:

	2014						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
				(In Thousands)			
Commercial and industrial	$ 163	$ -	$ 735	$ 898	$ 28,289	$ 29,187	$ -
Commercial real estate	-	739	920	1,659	227,720	229,379	-
Construction loans	-	-	-	-	1,400	1,400	-
Home equity and second mortgages	-	-	-	-	14,091	14,091	-
Consumer loans, other	1	-	-	1	1,124	1,125	-
Residential mortgages	-	-	-	-	20,986	20,986	-
Total loans	$ 164	$ 739	$ 1,655	$ 2,558	$ 293,610	$ 296,168	$ -

	2013						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
				(In Thousands)			
Commercial and industrial	$ -	$ -	$ -	$ -	$ 37,338	$ 37,338	$ -
Commercial real estate	493	709	1,644	2,846	232,647	235,493	-
Construction loans	-	-	-	-	1,497	1,497	-
Home equity and second mortgages	-	50	-	50	17,403	17,453	-
Consumer loans, other	1	-	-	1	1,056	1,057	-
Residential mortgages	232	-	-	232	14,352	14,584	-
Total loans	$ 726	$ 759	$ 1,644	$ 3,129	$ 304,293	$ 307,422	$ -

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring (“TDR”). The Company may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Company's allowance for loan losses.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

The Company had $2,300,000 and $366,000 of TDRs outstanding as of December 31, 2014 and 2013, respectively.

The following table reflects information regarding the loan modifications made in the year ended December 31, 2014 that are classified as TDRs (in thousands):

	2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Troubled debt restructurings:			
Commercial and industrial	1	$ 1,244	$ 1,244
Commercial real estate	2	339	339
Construction loans	-	-	-
Home equity and secured mortgages	1	200	200
Consumer loans, other	-	-	-
Residential mortgages	1	176	176
Total	5	$ 1,959	$ 1,959

The Company had no TDRs made in prior years which subsequently defaulted in 2014. There were no loan modifications made in the year ended December 31, 2013 that were classified as TDRs.

4. Premises and Equipment

Premises and equipment at December 31, 2014 and 2013 is summarized as follows:

	2014	2013
	(In Thousands)	
Land and land improvements	$ 7,592	$ 3,592
Buildings	11,996	11,996
Buildings under capital lease	1,020	1,020
Leasehold improvements	3,732	3,728
Equipment	1,859	2,126
Furniture and fixtures	2,264	2,252
Software	94	205
Vehicles	31	32
Total premise and equipment, gross	28,588	24,951
Accumulated depreciation and amortization	(4,483)	(3,882)
Total premise and equipment, net	$ 24,105	$ 21,069

In 2013, the Company purchased a branch premises it had been leasing under a capital lease. At the time of purchase, the net book value of the capital lease asset was $1,143,000.

Depreciation expense amounted to $1,059,000 in 2014 and $1,121,000 in 2013.

5. Deposits

Deposits at December 31, 2014 and 2013 consist of the following:

	2014	2013
	(In Thousands)	
Demand, non-interest bearing	$ 65,132	$ 58,314
Demand, interest bearing	38,234	49,294
Money market accounts	40,294	41,054
Savings	90,627	121,064
Time, $100,000 and over	42,307	27,587
Time, other	15,168	12,333
Total	$ 291,762	$ 309,646

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2014 and 2013 were $21,230,000 and $13,722,000, respectively.

Certificates of deposit mature as follows (in thousands):

Years ending December 31:	
2015	$ 14,084
2016	13,373
2017	1,689
2018	18,059
2019	10,270
Total	$ 57,475

6. Borrowings and Subordinated Notes Payable

At December 31, 2014 and 2013, the Company had $24,000,000 in fixed rate long-term advances outstanding with the FHLB which mature in 2017. The weighted average interest rate on these advances was 3.72% for the years ended December 31, 2014 and 2013, respectively. These fixed rate advances originated in 2007.

At December 31, 2014 and 2013, the Company had $2,500,000 and $4,500,000, respectively, in fixed rate, long-term advances outstanding with ACBB. Interest on these borrowings is 5.00% and they are scheduled to mature December 31, 2015. This borrowing is collateralized by all outstanding shares of Bank stock.

The Company also has a $4,000,000 line of credit facility for the purchase of federal funds from ACBB, expiring June 30, 2015, of which $-0- was outstanding at both December 31, 2014 and 2013.

The Company also has a $5,000,000 line of credit facility for the purchase of federal funds from First Tennessee Bank, expiring June 30, 2015, of which $-0- was outstanding at December 31, 2014 and 2013.

The Company also has an $8,000,000 line of credit facility for the purchase of federal funds from Zions Bank, with no stated maturity date, of which $-0- was outstanding at December 31, 2014 and 2013.

At December 31, 2014, the Company had $1,600,000 of subordinated notes payable with the Board of Directors and related interests. Interest on these borrowings is 6.00% with a maturity of June 2015. Interest expense to these related parties was $89,000 and $42,000 for the years ended December 31, 2014 and 2013, respectively.

7. Capital Lease Obligations

The Company leases one of its branches under a lease which qualifies as a capital lease obligation under existing Financial Accounting Standards Board guidance for leases. This lease is with a related party. The following is a schedule by years of the future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of December 31, 2014:

	Total (In Thousands)
Years ending December 31:	
2015	$ 80
2016	80
2017	80
2018	80
2019	80
Thereafter	1,151
Total minimum lease payments	1,551
Amounts representing interest	(638)
Present value of net minimum lease payments	$ 913

Premises and equipment includes the following amounts related to the capital leases at December 31, 2014 and 2013:

	2014	2013
	(In Thousands)	
Buildings under capital leases	$ 1,020	$ 1,020
Accumulated depreciation	(208)	(167)
Total	$ 812	$ 853

In 2013, the Company purchased one branch premise it had been leasing under a capital lease. At the time of purchase, the capital lease obligation was $1,212,000.

8. Lease Commitments and Total Rental Expense

The Company leases certain branch locations under building and/or land operating lease agreements expiring in various years through 2034. The Company is generally responsible to pay its share of real estate taxes, insurance, utilities, and maintenance and repairs on the buildings. The Company also has options to extend the lease agreements on the branch locations.

Future minimum rental payments under the above leases will be as follows:

	Other	Related Party	Total
		(In Thousands)	
2015	$ 308	$ 392	$ 700
2016	311	399	710
2017	215	402	617
2018	129	402	531
2019	132	417	549
Thereafter	1,475	4,677	6,152
Total	$ 2,570	$ 6,689	$ 9,259

Total rental expense for the years ended December 31, 2014 and 2013 was $695,000 and $923,000, respectively. Of these totals, rental expense to related party landlords for the years ended December 31, 2014 and 2013 was $338,000 and $359,000, respectively.

9. Income Taxes

The components of income tax expense for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
	(In Thousands)	
Current tax expense	$ 1,566	$ 1,923
Deferred tax expense (benefit)	62	(223)
Total income tax expense	$ 1,628	$ 1,700

The components of the net deferred tax asset at December 31, 2014 and 2013 are as follows:

	2014	2013
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 1,497	$ 1,425
Stock compensation expense	23	28
Nonaccrual loan interest	19	34
Other	-	6
Total deferred tax assets	1,539	1,493
Deferred tax liabilities:		
Loan origination costs	(119)	(131)
Securities accretion	-	(18)
Depreciation	(634)	(526)
Prepaid costs	(129)	(99)
Total tax deferred liabilities	(882)	(774)
Net deferred tax assets (included in other assets)	$ 657	$ 719

10. Share-Based Compensation

In 2003, the Company adopted three Stock Option Plans that were approved by stockholders on April 22, 2003. The 2003 Founders/Organizers Stock Option Plan A provided for the granting of stock options to directors and initial organizers to purchase up to 61,850 shares of the Company’s common stock, as adjusted for the 10% stock dividend in 2006 and 5% stock dividend in 2011. All stock options granted vested immediately on the date of grant. This plan expired on March 19, 2013. The 2003 Directors Stock Option Plan B provided for the granting of stock options to directors to purchase up to 61,850 shares, as adjusted for the stock dividends. All stock options granted vested immediately on the date of grant. This plan expired on March 19, 2013. The 2003 Employees Stock Option Plan provided for the granting of stock options to employees to purchase up to 123,701 shares, as adjusted for the stock dividends. The vesting of employee stock options was at the discretion of the committee awarding the options. This plan expired on March 19, 2013. The shares granted under the Plans to outside directors and organizers were non-qualified options. The shares granted to employees were “incentive stock options,” and are subject to the limitations under Section 422 of the Internal Revenue Code. The exercise price of options granted under the Plans could not be less than the fair market value of the Company’s stock at the date of grant and the term of the options could not exceed ten years.

In 2010, the Company adopted the 2010 Equity Compensation Plan that was approved by stockholders on April 28, 2010. The 2010 Equity Compensation Plan provides for the granting of stock awards to employees and directors to purchase up to 105,000 shares of the Company's common stock as adjusted for the 5% stock dividend in 2011. The vesting of the stock awards is at the discretion of the committee awarding the options. The shares granted under the 2010 Equity Compensation Plan may be either non-qualified options, "incentive stock options," which are subject to the limitations under Section 422 of the Internal Revenue Code, or restricted stock awards. The exercise price of non-qualified options and "incentive stock options" granted under the 2010 Equity Compensation Plan shall not be less than the fair market value of the Company's stock at the grant date and the term of the awards shall not exceed ten years. No grants had been awarded under this Plan until 2012. In April 2012, the Company granted 46,500 restricted stock awards to certain employees. In 2013, the Company granted 29,167 restricted stock awards to certain employees and had 5,834 forfeited restricted stock awards. These restricted stock awards vest over 3 years. In 2014, the company granted 35,100 restricted stock awards to certain employees and directors of which 28,000 restricted stock awards vested immediately and 7,100 restricted stock awards vest over 3 years. $339,000 and $160,000 of expense has been recognized on these awards for the years ended December 31, 2014 and 2013, respectively. There is $62,000 of future expense to be recognized on these awards.

As of December 31, 2014, the Company has outstanding stock options as follows:

	2003 Founders and Organizers	2003 Directors	2003 Employees	Weighted Average Exercise Price
Outstanding, December 31, 2011	61,850	46,835	123,543	$ 8.88
Granted in 2012	-	14,000	-	6.00
Outstanding, December 31, 2012	61,850	60,835	123,543	8.72
Stock options expired or forfeited in 2013	(61,850)	(30,028)	(103,864)	9.08
Outstanding, December 31, 2013	-	30,807	19,679	8.11
Stock options expired or forfeited in 2014	-	(1,978)	(2,295)	8.22
Outstanding, December 31, 2014	-	28,829	17,384	$ 8.10
Exercisable, December 31, 2014	-	28,829	17,384	$ 8.10
Shares available for future grant	-	-	-	$ -

The weighted average remaining contractual life of options outstanding at December 31, 2014 is 4.4 years. The weighted average remaining contractual life of options exercisable at December 31, 2014 is 4.4 years. At December 31, 2014, the aggregate intrinsic value of options outstanding and exercisable was $-0-.

There were no stock options granted in 2014.

For the years ended December 31, 2014 and 2013, there was no compensation expense related to stock options. At December 31, 2014, there was $-0- of unrecognized compensation costs related to outstanding stock options.

11. Stockholders' Equity

Effective July 15, 2011, the Company completed a stock offering of non-cumulative, non-participating Preferred Stock Series C and issued 400,000 shares of preferred stock at $20.00 per share for proceeds of $8,000,000. The dividend rate will be 6.00% for the first 3 years, and thereafter the dividend rate will be variable, set quarterly, and will equal the prime rate plus 100 basis points, with a minimum rate of 5.45% and maximum rate of 7.00%. The preferred shares are convertible into shares of common stock at the election of the holder. The initial conversion ratio for the first three years through July 15, 2014 will equal 3.33 common shares for each preferred share. In year four, the conversion ratio will change to 2.86, in year five the conversion ratio will change to 2.50. Thereafter the exchange ratio will be determined by dividing the $20 by a multiple of the current book value per share beginning at 1 times and increased to 1.5 times book value after the seventh year. After the fifth anniversary, the Company will have the right to require conversion at the then applicable conversion ratio.

During 2013, the Company obtained capital through the offering of shares of Series C Convertible Preferred Stock at a price of $20.00 per share. The Company issued 55,500 shares and received proceeds of $1,110,000.

On July 15, 2014, 369,250 of Series C preferred shares were converted into 1,229,589 shares (net of fractional shares) of common stock at a conversion rate of 3.33 for an amount of $7,385,000. The remaining amount of Series C preferred shares issued and outstanding is 86,250.

12. Transactions with Executive Officers, Directors and Principal Stockholders

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders and their related interests on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Deposits of related parties totaled $18,341,000 and $14,865,000 at December 31, 2014 and 2013, respectively.

Loans outstanding to directors, executive officers, principal stockholders or to their affiliates totaled $11,688,000 and $12,764,000 at December 31, 2014 and 2013, respectively. Advances and repayments during 2014 totaled $100,000 and $1,176,000, respectively.

13. Employee Benefit Plan

In 2014, the Company established a Safe Harbor 401(k) Plan (the "Plan") for all qualified employees. Qualified employees are eligible to receive a Safe Harbor matching contribution equal to 100% of the amount contributed to the Plan for each payroll period up to 4% of Plan compensation. Under the 2013 Plan, employees could contribute up to 20% of their compensation and the Company provided a 30% match of the member's contribution. The Company made a matching contribution to the 401(k) Plan totaling $111,000 and $55,000 for 2014 and 2013, respectively.

14. Financial Instruments with Off-Balance Sheet Risk

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degree, elements of credit risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss from nonperformance by the other party to the above-mentioned financial instruments is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The contract or notional amount of financial instruments whose contract amounts represent credit risk at December 31, 2014 and 2013 is as follows:

	2014	2013
	(In Thousands)	
Commitments to grant loans	$ 31,632	$ 17,317
Unfunded commitments under lines of credit	20,660	9,653
Standby letters of credit	414	363

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to those commitments at December 31, 2014 and 2013 was $414,000 and $363,000, respectively, and the approximate value of underlying collateral upon liquidation that would be expected to cover this maximum potential exposure at December 31, 2014 and 2013, was approximately $414,000 and $363,000, respectively. The current amount of the liability as of December 31, 2014 and 2013 for guarantees under standby letters of credit issued is not material.

15. Regulatory Matters

The Bank is required to maintain cash reserve balances in vault cash and with their correspondent bank. The required reserve balance at December 31, 2014 was $1,452,000.

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2014, that the Bank meets all capital adequacy requirements to which it is subject.

The following is a summary of the Bank's actual capital amounts and ratios as of December 31, 2014 and 2013, compared to the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a "well-capitalized" institution:

	2014					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar Amounts in Thousands)					
Total capital (to risk-weighted assets)	$ 39,750	12.82 %	$ ≥24,805	≥8.00 %	$ ≥31,006	≥10.00 %
Tier 1 capital (to risk-weighted assets)	35,866	11.57	≥12,402	≥4.00	≥18,604	≥ 6.00
Tier 1 capital (to average assets)	35,866	10.08	≥14,236	≥4.00	≥17,795	≥ 5.00

	2013					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar Amounts in Thousands)					
Total capital (to risk-weighted assets)	$ 39,869	12.37 %	$ ≥25,780	≥8.00 %	$ ≥32,225	≥10.00 %
Tier 1 capital (to risk-weighted assets)	35,832	11.12	≥12,890	≥4.00	≥19,335	≥ 6.00
Tier 1 capital (to average assets)	35,832	9.25	≥15,493	≥4.00	≥19,366	≥ 5.00

Subject to applicable law, the Board of Directors of the Company may provide for the payment of dividends. State banking statutes restrict the amount of dividends on capital stock. Accordingly, no dividends shall be paid by the Bank to the holding company unless, after the payment of such dividend, the capital stock of the Bank will not be impaired and (1) the Bank will have a statutory surplus of not less than 50% of its capital stock, or if not, (2) the payment of such dividend will not reduce the statutory surplus of the Bank. In addition, dividends would be prohibited if the effect thereof would cause the Bank’s capital to be reduced below applicable minimum capital requirements.

16. Fair Value Measurements and Disclosures

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

At December 31, 2014 and 2013, the Company had no financial assets measured at fair value on a recurring basis.

There were no impaired loans measured at fair value on a non-recurring basis at December 31, 2014 and 2013.

There were no non-financial assets measured at fair value on a non-recurring basis at December 31, 2014 and 2013.

Below is management's estimate of the fair value of all financial instruments, whether carried at cost or fair value. The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2014 and 2013:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

Interest Bearing Time Deposit (Carried at Cost)

Fair values for fixed-rate time certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits. The Company generally purchases amounts below the insured limit, limiting the amount of credit risk on these time deposits.

Securities

The fair value of securities available-for-sale (carried at fair value) and held-to-maturity (carried at amortized cost) are determined by matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For the Level 3 private issue collateralized mortgage obligation, the Company utilized a cash flow model. The valuation model captures the composition of the underlying collateral and the cash flow structure of the security. Significant inputs to the model include delinquencies, collateral types and related contractual features, estimated rates of default, loss severity and prepayment assumptions.

Loans Receivable (Carried at Cost)

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those in which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. At December 31, 2014 and 2013, there were no collateral dependent impaired loans for which there is a specific reserve.

Investment in Restricted Stock (Carried at Cost)

The carrying amount of investment in restricted stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Long-Term Borrowings (Carried at Cost)

Fair values of FHLB and ACBB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB and ACBB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values of the Company's financial instruments were as follows at December 31, 2014 and 2013:

	2014				
	Carrying Amount	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 28,493	$ 28,493	$ 28,493	$ -	$ -
Interest bearing time deposits	1,201	1,201	-	1,201	-
Loans receivable, net	291,300	299,313	-	-	299,313
Securities held-to-maturity	4,687	4,677	-	4,677	-
Investment in restricted stock	1,523	1,523	-	1,523	-
Accrued interest receivable	1,194	1,194	-	1,194	-
Financial liabilities:					
Deposits	291,762	286,613	-	286,613	-
Accrued interest payable	263	263	-	263	-
Long-term borrowings and subordinated debt	28,100	29,597	-	29,597	-
Off-balance sheet financial instruments:					
Commitments to extend credit	-	-	-	-	-
Outstanding letters of credit	-	-	-	-	-

	2013				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	$ 41,068	$ 41,068	$ 41,068	$ -	$ -
Interest bearing time deposits	3,350	3,350	-	3,350	-
Loans receivable, net	302,007	309,658	-	-	309,658
Investment in restricted stock	1,717	1,717	-	1,717	-
Accrued interest receivable	1,373	1,373	-	1,373	-
Financial liabilities:					
Deposits	309,646	310,737	-	310,737	-
Accrued interest payable	337	337	-	337	-
Long-term borrowings and subordinated debt	30,100	31,821	-	31,821	-
Off-balance sheet financial instruments:					
Commitments to extend credit	-	-	-	-	-
Outstanding letters of credit	-	-	-	-	-

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CORPORATE INFORMATION

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ANNUAL SHAREHOLDERS MEETING
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ANNUAL SHAREHOLDERS MEETING
This Annual Report serves as the Bank's Annual Disclosure Statement as required by FDIC rules. This Annual Report has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

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